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*Degan Hanlon*

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Producers 88 (4-89) — Paid Up  
With 640 Acres Pooling Provision

## PAID UP OIL AND GAS LEASE (No Surface Use)

THIS LEASE AGREEMENT is made this 10th day of February, 2010, between REALTY INCOME TEXAS PROPERTIES 1, LLC, A DELAWARE LIMITED LIABILITY COMPANY, (f/k/a Realty Income Texas Properties, L.P.), P.O. Box 460069, Escondido CA 92046 as Lessor, and PALOMA BARNETT, LLC, 1021 Main Street, Suite 2600, Houston, Texas 77002-6606 as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises:

**0.951 acres, more or less, situated in the John W Gorbett Survey, A-607, and being Lot 1, Block 10R, of Harvest Hills III Addition, an addition to the City of Arlington, Tarrant County, Texas, according to the map or plat thereof recorded in Volume 388-166, Page 73, Plat Records, Tarrant County Texas.**

in the County of TARRANT, State of TEXAS, containing 0.951 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non hydrocarbon substances produced in association therewith (including geophysical/seismic operations). The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of three (3) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be twenty-five percent (25%) of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be twenty-five percent (25%) of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of either producing oil or gas or other substances covered hereby in paying quantities or such wells are waiting on hydraulic fracture stimulation, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. All shut-in royalty payments under this lease shall be paid or tendered to Lessor or to Lessor's credit in at lessor's address above or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the US Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.

5. Except as provided for in Paragraph 3. above, if Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 80 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means a well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises.

8. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or certified or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

9. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

10. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized herewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the leased premises or other lands used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter.

11. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction including restrictions on the drilling and production of wells, and the price of oil, gas, and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

12. In the event that Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen days after receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer.

13. No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default, within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or canceled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

14. For the same consideration recited above, Lessor hereby grants, assigns and conveys unto Lessee, its successors and assigns, a perpetual subsurface well bore easement under and through the leased premises for the placement of well bores (along routes selected by Lessee) from oil or gas wells the surface locations of which are situated on other tracts of land and which are not intended to develop the leased premises or lands pooled therewith and from which Lessor shall have no right to royalty or other benefit. Such subsurface well bore easements shall run with the land and survive any termination of this lease.

15. Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

16. Notwithstanding anything contained to the contrary in this lease, Lessee shall not have any rights to use the surface of the leased premises for drilling or other operations.

17. Lessor, and their successors and assigns, hereby grants Lessee an option to extend the primary term of this lease for an additional period of two (2) years from the end of the primary term by paying or tendering to Lessor prior to the end of the primary term the same bonus consideration, terms and conditions as granted for this lease.

**DISCLAIMER OF REPRESENTATIONS:** Lessor acknowledges that oil and gas lease payments, in the form of rental, bonus and royalty, are market sensitive and may vary depending on multiple factors and that this Lease is the product of good faith negotiations. Lessor understands that these lease payments and terms are final and that Lessor entered into this lease without duress or undue influence. Lessor recognizes that lease values could go up or down depending on market conditions. Lessor acknowledges that no representations or assurances were made in the negotiation of this lease that Lessor would get the highest price or different terms depending on future market conditions. Neither party to this lease will seek to alter the terms of this transaction based upon any differing terms which Lessee has or may negotiate with any other lessors/oil and gas owners.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

**LESSOR (WHETHER ONE OR MORE)**  
REALTY INCOME TEXAS PROPERTIES 1, LLC, a Delaware limited liability company  
(f/k/a Realty Income Texas Properties, L.P.)

By: REALTY INCOME CORPORATION,  
a Maryland corporation,  
its sole and managing member

  
Name: Michael R. Pfeiffer  
Title: Executive Vice President  
General Counsel

**LESSEE**  
PALOMA BARNETT, LLC  
a Delaware limited liability company

  
Name: MARK J. GABRISCH  
Title: VICE PRESIDENT, LAND

Accepted As To Form  
Real Estate Department

This Agreement is accepted subject to (1) the handwritten insertions, deletions and revisions made hereon, and (2) all of the terms and conditions set forth in that certain Addendum, attached hereto and incorporated herein by this reference.

## ACKNOWLEDGMENT

STATE OF CALIFORNIA  
COUNTY OF SAN DIEGO

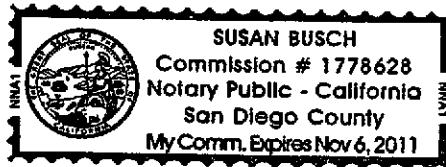
On FEBRUARY 10 2010 before me, SUSAN BUSCH, Notary Public, personally appeared MICHAEL R. PFEIFFER, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Susan Busch  
Signature of Notary Public

(Notary Seal)

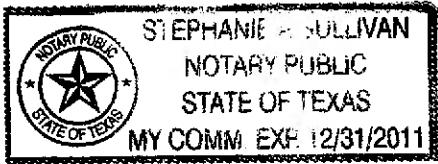


## ACKNOWLEDGMENT

STATE OF TEXAS  
COUNTY OF TARRANT

This instrument was acknowledged before me on the 15<sup>th</sup> day of March 2010 by MARK J. GABRIEL,  
as Vice President, Land of PAWNEE BARBERS INC,  
of said company, on behalf of LIMITED LIABILITY COMPANY

Stephanie Sullivan  
Notary Public, State of Texas



ADDENDUM TO OIL, GAS AND MINERAL LEASE

REALTY INCOME TEXAS PROPERTIES 1, LLC, a Delaware limited liability company ("Lessor") and PALOMA BARNETT, LLC ("Lessee") desire to enter into this addendum ("Addendum") to clarify and/or supplement certain aspects of that certain Paid Up Oil and Gas Lease dated as of February 10, 2010 ("Lease") with respect to certain subsurface rights ("Subsurface Rights") situated beneath that certain real property commonly known as 1801 E. Mayfield Road, Arlington, TX 76014 ("Leased Premises"). This Addendum is incorporated into and made a part of the Lease. Notwithstanding anything contained in the Lease to the contrary, the following terms and conditions shall apply, it being the intention of the parties that this Addendum shall supersede and control any provisions of the Lease to the contrary:

1. No Surface Operations or Interference. Lessee shall not (i) conduct any surface operations whatsoever upon the Leased Premises, (ii) place any personal property, fixtures or equipment upon the Leased Premises, or (iii) enter upon the Leased Premises at any time for any reason; provided, however, these prohibitions shall not be deemed to preclude directional or horizontal drilling activity beneath the Leased Premises or in association with pooling in accordance with the Lease, provided all such activity occurs at such a depth so as to not interfere with, or in any way affect, the use and enjoyment of the surface of the Leased Premises. Notwithstanding the foregoing, in no event shall any mining, drilling or any other Lessee activity occur at any depth less than 1,000 feet below the surface of the Leased Premises without the prior written consent of Lessor. The rights granted to Lessee per the Lease are expressly limited to exploration and production of oil, gas and other liquid and gaseous hydrocarbons which can be produced through a well bore; no other mineral or subsurface rights are or shall be deemed conveyed by the Lease.

2. Payments. Accounting and payments to Lessor of royalties arising from the exercise of Lessee's rights under the Lease shall be paid to Lessor in U.S. currency by check mailed to Lessor's address, and shall commence no later than one hundred twenty (120) days after commencement of production. Thereafter, all accounting and payments for royalties shall be made on or before the last day of the second calendar month following the calendar month in which production occurred. If not paid when due, (i) Lessor's royalties shall bear interest at the maximum lawful rate from the date due until the date paid, which interest Lessee hereby agrees to pay and (ii) Lessor shall have the right to pursue all rights and remedies at law or in equity with respect to such non-payment or with respect to any other event of default under the Lease. All payments due to Lessor shall be made by check in U.S. currency and sent to Lessor at the notice address set forth in the Lease, or in such other manner and/or place as shall be directed by Lessor. Notwithstanding the foregoing, Lessee shall have the right to suspend any royalty due under the Lease, without accruing interest, for any of the reasons set forth in Section 91.402(b) of the Texas Natural Resources Code, or any similar law or regulation whether now or hereafter enacted, but only as to the affected acreage or interest.

3. Pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the Leased Premises shall be treated as if it were production, drilling or reworking operations on the Leased Premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this Lease and included in the unit bears to the total gross acreage in the unit, and to the extent such production of unit production is sold by Lessee, or purchased by Lessee at market price.

4. Limitation to Preserve REIT Status.

a. To the extent that any royalty paid or credited to Lessor ("Payment") pursuant to the Lease during any taxable year of Lessor would constitute gross income to Lessor for purposes of Section 856(c)(2) ("95% REIT Income Test") or Section 856(c)(3) ("75% REIT Income Test") of the Internal Revenue Code of 1986, as amended, then notwithstanding any other provision of the Lease, the amount of such Payments for such year shall not exceed the lesser of:

- i. The amount that would cause Lessor to fail the 95% REIT Income Test for such year; or
- ii. The amount that would cause Lessor to fail the 75% REIT Income Test for such year (collectively, the "Limits").

b. For purposes of applying the Limits:

- i. The determination of the Limits shall be made by Lessor and, if the Payment is being made prior to the end of the taxable year, the Limits shall be determined by taking into account Lessor's expected income (both qualifying and nonqualifying under the above income tests) for the entire taxable year. For purposes of applying the Limits, in addition to any known or expected nonqualifying income of Lessor under the REIT income tests for such year, an assumption shall be made that Lessor has an additional Three Million Dollars (\$3,000,000) of nonqualifying income under each of the tests described above. If the Limits could reasonably be expected to apply to any Payment, Lessor shall provide this information to Lessee prior to the due date for such Payment. In addition, to the extent Lessee makes any Payment in excess of the Limits, Lessor reserves the right to return such overpayment to Lessee.
- ii. For purposes of determining the Limits, each Payment shall be considered nonqualifying income under the 95% REIT Income Test and 75% REIT Income Test, except to the extent a reasoned opinion of outside counsel selected by Lessor, or a ruling from the Internal Revenue Service, issued to Lessor as a condition precedent, concludes that a Payment will or should not be considered nonqualifying income under such tests.
- iii. To the extent Payments may not be made in a taxable year of Lessor due to the Limits, such Payments shall carry over and be treated as arising in the following year (subject to the Limits for such year), provided, that such amounts shall not carry over for more than three (3) years, and if not paid within such three (3) year period, shall expire; and provided further that (i) as Payments are made, such payments shall be applied first to carry over amounts outstanding, if any, and (ii) with respect to carry over amounts for more than one taxable year, such Payments shall be applied to the earliest taxable year first.

5. Indemnity. Other than damages proximately caused by reason of the gross negligence or willful misconduct of Lessor or its agents and employees, Lessee shall indemnify, defend and protect Lessor, and hold Lessor harmless from any and all loss, cost, damage, expense and/or liability (including, without limitation, court costs and reasonable attorneys' fees) incurred in connection with or arising at any time from (i) Lessee's Addendum to Paid Up Oil and Gas Lease

activities and operations on the Leased Premises; (ii) any default by Lessee in the observance or performance of any of the terms of the Lease on Lessee's part to be observed or performed; and (iii) any claims by any persons by reason of injury to persons or damage to property occasioned by Lessee's activities and operations on the Leased Premises. The provisions of this Section shall survive the expiration or sooner termination of the Lease with respect to any claims or liability occurring prior to such expiration or termination, and shall not be limited by reason of any insurance carried by Lessee or Lessor.

6. Insurance. At all times while the Lease is in force, Lessee shall procure and maintain commercially reasonable insurance covering all of its activities and operations, including coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of cleanup and surface remediation, and shall follow the greater in coverage of the current and/or any future insurance requirements set forth in the applicable local law, regulation and ordinances. Prior to commencement of Lessee's operations on the Leased Premises, upon written request, Lessee shall furnish Lessor with a Certificate of Liability Insurance naming Lessor as Certificate Holder and Additional Insured.

7. Assignment. The interest of either Lessor or Lessee hereunder may be assigned or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns; provided, however, if Lessee is to assign any part of this Lease it shall give written notice and a copy of any assignment to the Lessor within sixty (60) days of assignment. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until thirty (30) days after Lessee has been furnished copies of the documents establishing such change of ownership or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. Every transferee shall succeed to all rights and shall be subject to all obligations, liability, and penalties owed to the Lessor by the original Lessee or any prior transferee of the Lease, including, and not limited to, any liabilities to the Lessor for unpaid royalties.

8. No Representations or Warranties. Lessor makes no representations or warranties of any kind, either express or implied, with respect to title. Lessee acknowledges that it was given a full opportunity to conduct its own diligence and investigation prior to execution of the Lease and satisfy itself as to all matters pertinent to Lessee with respect to a grant of the Subsurface Rights, including, without limitation, title to same and encumbrances burdening same. Lessee assumes all risk of title failures and encumbrances, and in connection therewith Lessee shall have no recourse against Lessor, including, without limitation, no right to a refund of the bonus and royalties paid for or under the Lease.

9. Release. In the event the Lease terminates for any reason as to all or any part of the Subsurface Rights, Lessee shall, within ninety (90) days thereafter, deliver to Lessor a release in recordable form covering all of the Subsurface Rights or that portion of the Subsurface Rights as to which the Lease terminated.

10. Environmental and Operational Provisions. Lessee shall use a reasonable degree of care and take all reasonable safeguards to prevent contamination or pollution of any environmental medium, including, without limitation, soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under the Leased Premises or lands pooled therewith, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the Leased Premises or lands pooled therewith any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response Compensation and Liability Act (CERCLA), 42 U.S. C. Sections 9601, et seq.) or toxic substances under any federal, state or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. Lessee's violation of the foregoing prohibition shall constitute a material breach and default hereunder, and Lessee shall indemnify, hold harmless and defend Lessor, its successors and assigns from and against any claims, damages, judgments, penalties, liabilities, and costs (including reasonable attorneys fees and court costs) caused by or arising out of (1) a violation of the foregoing prohibition or (2) the presence, release or disposal of any hazardous materials on, under or about said Leased Premises or lands pooled therewith during Lessee's occupancy or control of same. Lessee shall clean up, remove, remedy, repair and/or remediate any soil or ground water contamination and damage caused by the presence or release of any hazardous materials in, on, under or about said Leased Premises or lands pooled therewith during Lessee's occupancy of same in conformance with the requirements of applicable law. This indemnification and assumption shall apply, but is not limited to, liability for response actions undertaken pursuant to CERCLA or any other environmental law or regulation. Lessee shall immediately give Lessor written notice of any breach or suspected breach of this paragraph, upon learning of the presence of any Hazardous Materials, or upon receiving a notice pertaining to Hazardous Materials which may affect said Leased Premises or lands pooled therewith. The covenants and obligations of Lessee hereunder shall survive the expiration or earlier termination of the Lease.

11. Entire Agreement. The Lease and this Addendum constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all prior or contemporaneous agreements or understandings. The Lease and this Addendum shall not be changed or modified except by written agreement executed by all parties.

12. Special Provisions:

- a. Section 12 of the Lease is hereby deleted in its entirety; and
- b. Section 14 of the Lease is hereby deleted in its entirety

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

LESSOR:

REALTY INCOME TEXAS PROPERTIES 1, LLC,  
a Delaware limited liability company

By: REALTY INCOME CORPORATION,  
a Maryland corporation,  
its sole and managing member

By: Michael R. Pfeiffer 2-10-10  
Date: Michael R. Pfeiffer  
Executive Vice President  
General Counsel

Warranted As To Form  
Legal Department

LESSEE:

PALOMA BARNETT, LLC  
a Delaware limited liability company

By: John J. S. 3-1-10  
Date: John J. S. 3-1-10